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# NORTH AMERICAN REVIEW

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## THE AMERICAN RAILROAD OUTLOOK

BY WILLIAM Z. RIPLEY

AMERICAN railroading has been characterized by extraordinary fluctuations between poverty and affluence. Occasionally it has seemed as if the continued growth of our population and the attendant expansion of business must inevitably increase the profitableness of transportation almost in a geometric ratio. But since the halcyon days of 1899-1903, the days of the great leaders like Hill and Harriman, railroad matters seem to have gone steadily from bad to worse. Nor is the War with its attendant economic consequences to be held alone responsible for this retrogression. Railroad enterprise, once so dominant a note in our national affairs, is now seemingly stifled. The people no longer entrust their savings to railroad investments, and the Government, stepping into their place, has become the largest direct creditor through grants in aid since 1916. As much as one quarter of the indebtedness of some companies is to the United States Treasury. In the aggregate the obligation is stupendous. The current financial record is indeed disheartening. For 1921 the net operating revenue of the Class One railways on the whole amounted to only a trifle more than 3 per cent on the investment. This is less than half of the rate of return five years earlier. A slump in traffic began in December, 1920, to a degree hitherto unprecedented in our history. Not even the depression of 1893 was accompanied by so severe a collapse in the movement of freight and passengers. The virtual cessation of new construc-

tion for a number of years has been increasingly accompanied by downright abandonment or entire discontinuance of service. Every resource is being husbanded. Men are laid off. Maintenance, especially of equipment, is being cut to the bone; and there is not sufficient revenue loading even to keep more than a fraction of the good order equipment in motion. The years 1920—1921 will certainly go down in history as winters of great discontent in American railroading. Everything seemingly is going on downhill, as if the world were speedily coming to an end; not in the least as if our population and trade were certain in due season to burgeon forth into a demand for transportation, which the then existing instrumentalities will be entirely inadequate to furnish. There will be a crisis then of an entirely different sort. The outcry will come not from the owners of the railroad properties, but from the shipping public—farmers, merchants, and consumers alike.

Yet despite the discouraging current circumstances there are certain elements in the situation which give good ground for hope that with the resumption of normal trade and commerce the revival will be rapid and so substantial that we shall be surprised at the outcome. More than this, these new factors are so fundamental that it appears as if a groundwork had been at last laid upon which more sound and wholesome relationships between private initiative and government regulation than have hitherto obtained have come to stay—this, of course, upon the assumption that Congress will in its wisdom resist all attempts to amend the Transportation Act of 1920 until it has had a fair test under normal industrial conditions.

The first basic element making for confidence is the approaching completion of the stupendous task of physical valuation of the railroad property of the United States. This virtually amounts to what the merchant would call a taking account of stock. Since 1914, engineers in field parties have examined every foot of 260,000 miles of track, counted the ties, inspected the equipment, the bridges and the terminals. Tables of probable life and depreciation have been set up for each unit of railroad possessions; and these results, accumulated during the last eight years by the field parties, are now well along in process of tabula-

tion in the office of the Interstate Commerce Commission. Up to the close of 1921, the cost of the undertaking has been \$21,658,000. The final expense will approximate \$25,000,000. This great enterprise was bitterly attacked at the outset by the representatives of the railroads and the bankers. The proposal of an inventory originated with Senator La Follette and those members of Congress constituting the most determined and bitter critics of the carriers. The representatives of the farmers, and to a less degree commercial shippers and labor, expected confirmation of their repeated allegations that an enormous mass of railroad securities—stocks and bonds—were outstanding far out of proportion either to the actual investment or to its present value, supposing that it were to be recreated at the present day out of hand. The determined opposition and criticism of the bankers and railroad representatives at the outset to the progress of this work seemingly gave some color to this contention. But with the passage of time those of us who have believed throughout in the necessity of establishing some downright bench-mark of value by which to judge of the reasonableness of our rate schedules, have noted a complete shift of attitude. The agricultural representatives, the so-called progressive or radical faction in Congress, and the labor group, have become increasingly indifferent to the progress of this great inventory. And just in proportion as its original proponents have abated their enthusiasm, so has a keener interest been manifested by its original critics.

The explanation of the shift in attitude toward physical valuation of railroads is to be found in the facts which have already come to light. Little by little, vague prognostications have been succeeded by positive data. According to the latest report almost two hundred tentative valuations had been served upon the carriers. There will be many changes and corrections in detail in these results; but their trend is already sufficiently clear. They disclose, to be sure, nothing new or unsuspected; but they bring to light the individual standing, road by road, of the various companies. One cannot affirm baldly that this stock-taking sets off the sheep from the goats. But it is already apparent that there are enough light-colored members of the flock, so that the blackness of a certain proportion does not produce an unduly dun

effect. It is a far better showing than one might have anticipated. For a considerable number of properties, notably those in New England, there is in evidence a substantial excess of investment above the outstanding volume of securities. It seems likely that for the great trunk lines, like the New York Central and the Pennsylvania, there will be a fair degree of equivalence. In the South one finds wide variations between the Central of Georgia with an excess of valuation, and the Atlanta, Birmingham and Atlantic with a ratio of present value to its property account of less than half. In the West, the Grangers apparently will emerge with a surprisingly sound record. For the now reorganized Rock Island, which is the first of the great carriers for which a final report is available, there is substantially dollar for dollar of a *bona fide* investment equal to the existing capitalization. For roads like the Chicago and Northwestern, with its large terminal properties, there will be a substantial surplus. On the other hand, in the Southwest there is unquestionably an overstatement of value in the accounts. It seems unfair and artificial to base conclusions upon pre-war price levels; and perhaps a correction on the basis of present prices would bring roads like the St. Louis and Southwestern and the Kansas City Southern more nearly to an equivalence of valuation and outstanding securities. By and large, the latest return for seventy-seven carriers, reported in October, showed a total value of property owned of \$1,092,000,000, as against a recorded investment of \$1,446,000,000. But of this discrepancy or deficiency of value about one-half was due to overstatement of the property account of four roads, notoriously overvalued, such as the Western Pacific, and the Los Angeles and Salt Lake. Several of these roads have since been reorganized and their capitalization has been substantially scaled down. Furthermore, the examination of the book records of investment of the roads has resulted in a certification of upwards of 90 per cent of the items. From all of this it appears that the railways in general not only have nothing to fear from valuation, but that, on the other hand, a firm basis has been established upon which, under the Constitution of the United States, a fair return must hereafter be assured.

The next encouraging feature is the passage of the Transporta-

tion Act of 1920, under which the carriers were returned by the Federal Government to private management. All of the railroad statutes hitherto have been more or less of necessity repressive. For a generation a steady succession of laws has been aimed at the prevention of one demonstrated abuse after another. Political corruption through passes was first tackled. The personal discrimination had to be eliminated. Unfair discriminations between places and markets came next. Regulation then invaded the field of operation, seeking to eliminate car shortages or embargoes. And so the statutes grew, page by page. But the regulation remained one-sided and negative. That was why since 1900, practically, a process of slow starvation set in. And this is the reason: The entire one-sidedness of the control. It applied solely to income, with no governance of outgo. A railroad corporation has in effect three main contacts with the outside world. The principal intake has to do with freight and passenger rates. And there are two main outgoes, one in wages to labor and the other in interest and dividends to the owners of the property. Of these three the revenues alone were taken in hand by government control. But the expenditures remained exposed to all the vicissitudes of fickle fortune. As prices steadily rose year after year, especially after 1914, labor, becoming more strongly organized and insistent, pressed for wage increases commensurate with the rising costs of living. Furthermore in many ways during the war, it suffered such a decline of morale and efficiency, due to various causes, that the output per dollar expended steadily declined. From 1,400,000 persons employed in 1916 the numbers increased by over 50 per cent within four years; and the wage bill rapidly mounted from \$1,500,000,000 in 1916 to two and one-half times that figure in 1920. All this time the revenue intake, being under strict control, was retarded, as it now seems, unduly. The most notable instances were the four adverse general rate decisions of the Interstate Commerce Commission, in 1910, 1914, 1915, and 1917.

But there was more than a partial excuse for the official refusal to permit these rate increases, time after time. A downright warrant existed in the entire uncertainties as to labor cost, and the unwillingness of the railway executives and bankers to sub-

mit the financial aspects of the business to the same control which had so long obtained respecting the revenue from rates. Additions to income might conceivably have been dissipated through undue surrender to the insistent demands of the railroad Brotherhoods, a demand which evidently got beyond even governmental control in the passage of the Adamson Law in 1916. And there was also the possibility, ever present, repeatedly evinced in concrete cases, of a prompt and sometimes improper capitalization of surpluses or superabundant income, which happened to result from any increases of rates allowed by those who were so minded. No way seemed open for subjection of the labor out-go to control; and the financial powers vigorously repulsed all attempts to regulate the emission of securities. Thus the situation was left entirely lop-sided. Deserved rate increases were denied, lest as a result local and sporadic financial inflation should ensue, or else that labor should pounce upon the newly granted revenues immediately they became available; and all the time, despite every effort to the contrary, the current bills for labor, fuel and supplies mounted higher and higher.

Then came the brief period of Federal operation during the War. The results are of so recent record as hardly to call for comment. Wages and all manner of expenses, as has been already noted, went sky-high. Attentive examination indicates that these wage increases basically were no greater than, if as great as, in other industries. Nor is it clear that the working rules in and of themselves, perhaps with the sole exception of punitive over-time in the slow freight service, represented an undue subserviency to labor. The main task was to win the War; and it was inevitable that it should remain to count the cost afterward. Much of the stupendous increase in cost of operation apparently resulted from the breakdown of morale, to which a railroad, with its operations spread out so thinly all over the map, is peculiarly subject. But whatever the causes, and many of them contributed jointly, the record of enhanced operating expenses was staggering; and throughout this period there persisted the same lag in the grant of revenues corresponding to the increase in costs of operation.

The return of the roads to private operation in 1920 brought matters to a head. Deflation of the wage bill could be effected

only by exercise of the power of sovereignty; and the people at large were in no mood to permit of a general strike. It was at last evident that expenditures for wages of railroad employees, meaning thereby the determination of all of their rules and working conditions, must come under the same governmental regulation which had so long been applied in the field of freight and passenger rates, that is to say, of revenues. Financial control, thereby dealing with the other great outgo, as it appeared, was also conceded on all sides for several reasons. The utter prostration after the war forced the owners and bankers to throw themselves upon the mercy of the Government, taking what additional legislation it exacted. Asylum also in this financial sphere was sought under Federal control from the harassing and conflicting activities of the different States in dealing with such matters. And the people by a long succession of disasters came to an appreciation of the basic fact that financial soundness is a necessary precursor of adequate service. Thus there was brought about the Transportation Act of 1920; viewed in a large way, a complete subjection both of labor and finances to the same strict supervision which had so long obtained respecting revenues.

The Transportation Act of 1920 is fairly comparable, constructively, with the legislation which set up the Federal Reserve system. The keynote in both was the same, the creation of a national, close-knit and inter-related system, strong in all its parts, no longer composed of disunited elements. Each member becomes in a measure responsible for all. This appears particularly in the new statutory definition of reasonable rates. The attempt is abandoned to fix rates piecemeal, road by road, with all their differing structures and necessities; and the Commission is directed to prescribe rates which shall afford a fair return to the properties considered as a whole—grouped, that is to say, territorially according to similarity of conditions. And for each of these groups the Commission is directed to provide a fixed return, the rate to be established from time to time. A beginning was made at 6 per cent. The novel feature, however, lies not in this reaffirmation of a long-standing judicial rule, but in the further provision that the surplus earnings of the strong roads above this return should be divided half and half with the



Government, in order to create thereby a credit fund from which the needs of the weaker roads might be from time to time supplied. This was to be effected, not in downright revenue, of course, but through loans for purposes of improvement. And all this becomes feasible as a business proposition because the valuation, already described, is to serve as the solid basis for all the necessary calculations.

The foregoing arrangement, bespeaking a new sense of solidarity as between carriers of different degrees of financial strength, is in no sense an individual guarantee either of a rate of return on investment, or permitting a standardization of dividends. The principle of guarantee is expressly disclaimed, as cutting at the root of initiative. Not a living is guaranteed, but rather the opportunity is rendered more nearly equal for each road to earn it by efficient, honest and economical management and upkeep. And as to dividends, they obviously may range above and below 6 per cent according to the financial structure or the development policy of each corporation.

But the essential unity of the entire railroad net, disregarding differences in earning power road by road, is still further expressed in two details of the Transportation Act. Each of them makes for the rehabilitation of the subnormal properties, drawing upon the superabundant strength of those which under a given uniform scale of rates attract to themselves more than their fair share of the allotted revenues of the group. The first is the new power given to the Commission to deal with the division of through rates between companies. All over the land cases will be found where strong roads, being more blessed in having traffic to give than to receive, have been able to extort thereby unfair proportions of the joint through rates. Readjustment of many of these relationships must aid, primarily, the weaker roads which have always suffered in such divisions.

A third manifestation of a sense of solidarity in the American railway net—of the interest of each carrier in the welfare of all, and of the people in an even-handed prosperity and efficiency throughout—occurs in the proposals respecting consolidation. Plans are directed to be drawn under which a limited number of great systems may be created. These must continue to compete

with one another so far as possible. And they must not unduly depart from the existing relationships as to interchange and movement. But the novel feature is that in the plans for their creation the strong and the weak are to be put together in such fashion that the resultant great systems shall be possessed of a fair equivalence of financial and competitive strength. The object is to put an end to the present diversity of status—an Erie between the New York Central and the Pennsylvania, competing on the same rates for trunk line business; or the Denver and Rio Grande striving to eke out an existence in face of the joint competition of the Union and Southern Pacific and of the Santa Fé in transcontinental traffic. The causes of disability may be various; a disadvantageous location, a bad start, a top-heavy financial structure, a thwarted ambition to reach coveted goals of traffic, or whatnot. Some of these may be overcome in part through financial reorganization. This, of course, is presupposed in any comprehensive consolidation programme. Perhaps the most far-reaching improvement through well-ordered consolidation will result from a better redistribution of the burdens of branch line and local service. By and large,—earning power resulting largely from long-haul business,—one may segregate the carriers into groups of strength and weakness in proportion to the amount relatively of through or branch line mileage. Yet the branches and feeders, the independent short lines, hundreds in number, are just as essential to the people as is each fourth-class post office in the great postal system of the United States. Most of them must be kept alive, and the cost must be fairly borne by all of the great trunks through which the aggregate traffic flows back and forth. To effect a rearrangement between these through and branch lines cannot but contribute to an abatement of the distress of the weak through imposing a fair draft upon the superabundant revenues of the strong.

The working out of a comprehensive programme of consolidation will take years. Perhaps it may have to be made compulsory, as they are now making it in the British Isles, responsive to the same great social needs. But even if it be not made compulsory, there is a provision in the new law which in its working is somewhat

analogous to the provisions dealing with ratification of constitutional amendments by the States. A general consolidation plan, once adopted, becomes final thereafter for the purpose of approval by the Interstate Commerce Commission of all subsequent mergers. No move repugnant to the general plan may thenceforth be made. Each piecemeal consolidation, therefore, like each separate State ratification of a Federal amendment, lays another brick in the slowly but certainly rising structure. It is hoped also that a direct motive of self-interest may make itself felt. This has to do with the recapture clause respecting rate-making already described, as well as with the new official control over joint rates. Forced to yield up one-half of its excess revenues or enhanced proportions of through rates on division, to neighboring roads or connections, the strong carrier, it is believed, may come to prefer a merger on certain terms with its weaker connections. For conceivably thereby, on the basis of their joint physical valuation, averaging its own super-normal revenues with the sub-normal returns of the other, a resultant rate of return may more closely approximate the prescribed figure by law, so that recapture of revenue may be brought to an end. By the downright adoption of poor relatives one balances the domestic budget and puts an end to doles.

The reversal of governmental policy respecting railroad consolidation is not less striking than that concerning physical valuation, to which reference has already been made. Two provisions in the Federal statutes have now for a generation been applied repressively to prevent any arrangement even remotely savoring of a getting-together between different railroads. The original Interstate Commerce Law prohibited pooling; and the courts have rigidly applied the law time and again to bring about the dissolution of all attempts at coöperation. The Sherman Anti-Trust Law likewise has been invoked repeatedly to break up the Harriman mergers, the Hill combination, and the attempted New England consolidation, to mention a few leading instances. Now all of this is reversed. Not only are the carriers invited to form great systems, but the anti-pooling clause is likewise amended; in both instances subject, of course, to the formality of official approval by the Interstate Commerce Commission.

Definite encouragement, in brief, is given to concerted action, on condition that such coöperation or consolidation shall be consonant with public welfare and with the development of a well-ordered, general scheme.

To the shipping public, merchants and farmers alike, the emphasis upon service and efficiency embodied in the Transportation Act of 1920 throughout should bring good cheer. For every detail concerning operating supervision, coöperation through pooling, or the consolidation programme looks to the provision of an alert and accelerated service through perpetuation of a normal rivalry. Competition between marked unequals in any line of endeavor is destructive of results and of morale. To set up a bout between a heavy-weight and a bantam promises no constructive conclusion, especially if the bantam is recognized as of equal importance to the ring-side as the heavy-weight. But a prolonged encounter between two rivals, nicely balanced as to their quality, is of the essence of good sport. It cannot but encourage fitness. Therein lies the significance of that detail of the new consolidation programme, seeking to so combine the present diverse properties as to render them fit to compete even-handedly in service, and thus for public favor, under a uniform scale of rates. To give each great competitor equal access to all parts of its natural territory; to provide it with suitable fuel supply on its own lines; to preserve a fair distribution between all of the companies of the heavy burden of maintaining local lines and feeders; to work out the terminal problems so that rival roads may be relieved of undue handicap in public favor, because, perhaps, of a late start or some unfortunate experience; to afford an equal degree of credit, once the financial structures have been recast and reduced to a fit and stable form—to do all these things and a hundred more making for evenly-balanced competition, should, it is believed, keep them each and all upon their toes in rendering service, instead, perhaps, as under a monopolistic government-owned system, of permitting everybody to go to sleep in the comfortable assurance that business must come a certain way whether deserved or not.

And then there is the new provision, also up-building as respects the future, which is intended to discourage purely

speculative or ill-considered new construction. A penalty which the régime of free and open opportunity for private initiative quite often imposes upon a community is that a certain amount of this initiative is better adapted to pay quick returns to the promoter than to bring long-time advantage to the public. No one can question that there has been excessive duplication of facilities in the past; and in the far Southwest, for example, where the pioneer stage of development is still evident, the landscape is strewn with wreckage, as a result. To forestall the repetition of purely speculative promotion, which not only brings loss to the investor, but generally imposes the final burden upon other roads already in the field, the new law provides that in future no new mileage shall be laid down without procuring from Washington what, in many States, is called a certificate of exigency and public convenience. Demonstrate the need, and the opportunity will follow. But the need must be demonstrated to the satisfaction of public authority. This, again, should bring comfort to the long suffering investor in American railroads. For it will compel the country to grow up and to fill out the measure of its existing transportation facilities.

One may pass over briefly two other aspects of the new law, each of which it is believed makes for stability and the improvement of transportation conditions. The first is the "plenary and exclusive" Federal control over the issue of securities and financing of railroads engaged in interstate commerce. Whatever one may think of such an adventure,—my own justification for it theoretically as part of a well-rounded programme having been already set forth,—as a matter of principle, this assumption of authority had to be brought about because of the impossible situation resulting from multiform and discordant attempts at financial regulation by the different States.

The assumption of financial control is, of course, a part of a general programme asserting Federal supremacy in matters of interstate commerce over the several States. It has been a long struggle, but the trend is unmistakable. It is as unmistakable in the sphere of rates as in that of finance. Confusion worse confounded has resulted from the independent efforts of the several States to fix rates, even with the best of intentions—and

not infrequently the intention to build up one State against another by rate discriminations has not always been of the best. The imperative necessity of a coördinated and comprehensive plan of rates has been everywhere demonstrated. One cannot have the New York Central, lying entirely within one Commonwealth, adhering to three cents a mile passenger fare, while other roads, like the Erie, between the same two points, say New York and Buffalo, because they go as the crow flies and cut across State boundaries, charge 3.6 cents a mile. For obviously, with so large a difference in fare, all conception of even-handed competition for public favor would come to an end. Such situations have arisen all over the country. They are especially awkward where considerable commercial cities, as so often happens, face each other across rivers, like the Mississippi or Missouri, forming the boundaries of States. Hence the new law takes a firm but considerate hold of the matter. Federal authority may not initiate local rates. But it is given final jurisdiction to bring to an end unjust discrimination, set up through the institution of local rates. Nor are the rights and interests of the States ruthlessly swept aside. Provision is made for conference and mutual understanding; and in the first great case hopeful indications for future coöperation are by no means absent.

This reassuring review deals with accomplishment already achieved. What remains yet to do? So large a part of any programme which may be reasonably demanded, pre-supposing, of course, that we are to continue the system of private ownership, has now been enacted into law in this salutary measure, that even the professional reformer, always with an eye cocked for change rather than the mere perpetuation of existing conditions, has relatively little to offer. First and foremost, there should be no tinkering with the Transportation Act until it has had a fair chance to demonstrate its effectiveness. The abnormal temporary conditions which have so discouraged and dissatisfied everybody must in time pass. And only with the resumption of normal traffic may one discover how the new provisions will work out. Assuredly the Labor Board must be continued and, in fact, given teeth, so to speak. Its participation in the general

scheme is absolutely essential to any well-devised programme. Nor can it be merged with the Interstate Commerce Commission. There is a clear division of function and abundant tillage for both. What is needed is a resolute but fair-minded Labor Board, governed neither by its emotions, by politics, nor by passion or prejudice. In my judgment, its membership should be general, that is to say, all based upon fitness, instead of being classified by groups of interest, as at present. The new rule of rate-making is equally fundamental and constructive, and ought not to be modified in the least detail, at all events until the need of amendment has been clearly demonstrated with the passage of time.

Attentive and concentrated study for the past year of the consolidation programme has convinced me that therein lies a great hope for stability of railroad investments and for improvement of service in the future. This programme should be pushed by an intensive study of such matters as comparative efficiency in operation, and especially of the terminal situation in the great population centres. The problem of terminal coördination, or perhaps of unification, is essential to the reaching of sound conclusions as to what may be done in the realignment of railroad properties out in the open country. Such study is doubtless contemplated by the Interstate Commerce Commission when once it is relieved from the pressure imposed by the present abnormal conditions in business. To me it seems likely also that a further consideration of Federal incorporation will in due time press for consideration. Many conditions surrounding the exercise of corporate powers are now anomalous. Federal authority essays to impose itself upon State corporations, deriving their powers from the sovereignty of the separate commonwealths. All sorts of conflicts may arise respecting the exercise of these corporate powers, leading to protracted litigation. Power in raising funds, the nature of financial structure, the details of leases or other agreements, may easily give rise to such conflict. Abundant evidence has already been had, also, as between the States, notably in such instances as the projection of Connecticut authority into Massachusetts under the New Haven charter, or of New Jersey's powers in Minnesota in the Northern Securities case. The El Paso Southwestern Railroad

is now part of a great transcontinental line. It derives its power not from the railroad law of any State, but from the general corporation law of New Jersey. This empowers it to do things outside of New Jersey which that State does not permit one of its own railroads to do. Further consideration ought to be given to a simplification of such conditions in respect to corporate powers, either by the substitution of Federal charters in the proposed new railway consolidations, or else through an understanding similar to that which has been reached in the field of banking as to the control by the United States of the activities of State banks.

Yet one other reform deserves consideration—and this well-nigh completes the programme which laid itself out in my mind nearly twenty-five years ago as a result of preparation of the report on railroads of the United States Industrial Commission in 1900. This has to do distinctively with the restoration of railroad credit, through provision of a higher degree of direct financial accountability of railroad corporations to their owners. And of course financial accountability to the public would incidentally flow from the same change. This is a long story, too long to be reviewed at this time; but the bitter experience of many years reveals that the management of many railroads, especially the non-dividend paying ones, is virtually self-perpetuating. The stock ownership is too widely scattered, too inert, and too largely devoid of the motive of self-interest—having lost heart in the enterprise through non-receipt of income—to assert itself vigorously. This means that corporate control is carried largely upon the basis of the floating supply of stock in the street. Furthermore, the equity in properties of this class has under existing circumstances so nearly reached the vanishing point that it is in fact the bondholders and not the stockholders to any considerable degree who constitute the real owners and who have any real stake in the enterprise. Yet these bondholders find no representation whatsoever in the management. They must perforce stand idly by, watching the drift of things, so long as the property can actually be kept out of bankruptcy; and after the road has gone over the brink and is in the rapids below it may be too late to prevent irreparable injury. Just what



remedy may best be applied is not certain; but the trend of my thinking is that the bondholders of a corporation ought to be entitled to a pro rata voice in the management.

The foregoing proposal as to admission of bondholders to participation in corporate management, dovetails into another. The United States Government has now become the greatest single creditor of the railroads. Its direct advances as a result of the War now far outweigh all other obligations to private holders. A recognition of the right and interest of the bondholders would automatically admit a certain measure of public, that is to say, governmental, representation on these railroad boards of directors. Not mere dummies like the former Federal representatives on the old trans-Pacific railroads, but experts chosen for their fitness, are contemplated. Such persons might well serve as trustees for the general public interest. They should be held to an accountability for due diligence in the service. Whether or not a rearrangement of directorial boards is feasible, cutting down the number and paying salaries for real service, is another matter. But it seems clear that a repetition of some of the unfortunate occurrences in the past, which have contributed to the breakdown of railroad credit, would tend to be prevented by certain changes along this line. Only by some such guarantee of a direct accountability to those whose funds are adventured in the business, may public confidence be won back again for the support and development of this great and indispensable industry.

Taken all in all, then, the outlook is more reassuring than for many years—granted only that Congress stay its hand and permit fair trial of the new legislation under normal conditions of prosperity.

WILLIAM Z. RIPLEY.